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OFFICE OF THE STATE AUDITOR

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NESHOBA COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2003

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

NESHOBA COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2003, which collectively comprise the Neshoba County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Neshoba County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, during the year ended June 30, 2003, the district implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

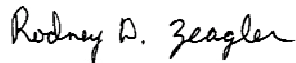
In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2004, on our consideration of the Neshoba County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Neshoba County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

April 22, 2004

NESHOBA COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

NESHOBA COUNTY SCHOOL DISTRICT

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**NESHOBA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003**

The discussion and analysis of Neshoba County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The School District has elected not to present comparative data.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$305,366, which represents 3% increase from fiscal year 2002.
- General revenues account for \$12,414,935 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,890,951 or 24% of total revenues.
- The District had \$16,000,520 in expenses; only \$3,890,951 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,414,935 were adequate to provide for these programs.
- Among major funds, the General Fund had \$12,325,991 in revenues and \$11,465,801 in expenditures. The General Fund's fund balance increased \$428,229 over the prior year. The increase was a result of total revenues outpacing total expenses.
- Capital assets, net of accumulated depreciation, decreased by \$337,688. This decrease was a result of current year depreciation expense increasing at a greater rate than capital asset additions.

- Long-term debt decreased by \$753,011. The District issued no new debt during the fiscal year ending June 30, 2003.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term liabilities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$10,197,454 as of June 30, 2003.

By far the largest portion of the District's net assets (56%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2003:

	<u>Amount</u>
Current and other assets	\$ 4,697,341
Capital assets, net	<u>11,774,511</u>
Total assets	<u>16,471,852</u>
Current and other liabilities	104,717
Long-term debt outstanding	<u>6,169,681</u>
Total liabilities	<u>6,274,398</u>
Net assets:	
Invested in capital assets, net of related debt	5,725,792
Restricted	2,120,330
Unrestricted	<u>2,351,332</u>
Total net assets	<u>\$ 10,197,454</u>

The following is a significant current year transaction that had an impact on the Statement of Net Assets.

- Long-term debt principal of \$753,011 was retired.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2003 were \$16,305,886. The total cost of all programs and services was \$16,000,520. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2003:

	<u>Amount</u>
Revenues:	
Program revenues	\$ 3,890,951
General revenues	<u>12,414,935</u>
Total revenues	<u>16,305,886</u>
Expenses:	
Instruction	10,254,702
Support services	4,286,915
Non-instructional	1,169,781
Sixteenth section	18,569
Interest and other expenses on long-term liabilities	<u>270,553</u>
Total expenses	<u>16,000,520</u>
Increase in net assets	<u>\$ 305,366</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 10,254,702	\$ (8,397,634)
Support services	4,286,915	(3,444,931)
Non-instructional	1,169,781	22,118
Sixteenth section	18,569	(18,569)
Interest and other expenses on long-term liabilities	<u>270,553</u>	<u>(270,553)</u>
Total expenses	<u>\$ 16,000,520</u>	<u>\$ (12,109,569)</u>

- Net cost of governmental activities (\$12,109,569) was financed by general revenue, which is made up of primarily property taxes (\$1,804,986), state revenue (\$9,665,703) and federal revenues (\$753,426).
- Investment earnings accounted for \$67,661 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,668,090, a decrease of \$113,505 due primarily to slight increases during the year of normal expenditures over ongoing revenues. \$2,472,294 or 53% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$2,195,796 or 47% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$428,229. The increase was a result of total revenues outpacing total expenses. The fund balance of the Sixteenth Section Interest Fund increased \$35,473 during the year. Among other major funds, the EHA Part B 2000 grant fund, the ROTC grant fund and the COPS program fund had no remaining fund balances for the fiscal year ending June 30, 2003. The fund balance of Other Governmental Funds decreased \$572,803, due primarily to principal payments on long-term debt being greater than revenue received in the debt service funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

- General Fund expenditures on the District's final revised budget decreased \$496,418 from original budget estimates. Originally, the District expected significant increases in insurance expenses and employee benefits. These increases did not materialize and the additional amounts budgeted were not expended.
- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2003, the District's total capital assets were \$17,370,670, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$25,995 from the previous year. The majority of this increase was a result of purchases of \$177,639 of new buses and other mobile equipment and retirement of \$151,644 of older buses and various other equipment. Total accumulated depreciation as of June 30, 2003 was \$5,596,159 and total depreciation expense for the year was \$501,194, resulting in total net capital assets of \$11,774,511.

Debt Administration. At June 30, 2003, the District had \$6,169,681 in general obligation bonds and other long-term debt outstanding, of which \$306,023 is due within one year.

The District maintains a AA- bond rating.

CURRENT ISSUES

The Neshoba County District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage increased from 29.29 mills for the year ending June 30, 2002 to 30.32 mills for the year ending June 30, 2003. Millage will remain at 30.32 mills for the year ending June 30, 2004. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase 31 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Neshoba County School District, P. O. Box 388, Philadelphia, MS 39350 .

NESHOBA COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2003

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,897,198
Cash with fiscal agents	715
Investments	100,930
Due from other governments	446,796
Accrued interest receivable	1,792
Other receivables, net	14,061
Inventories and prepaid items	36,047
Restricted assets	199,802
Capital assets, net	<u>11,774,511</u>
 Total Assets	 <u>16,471,852</u>
Liabilities	
Accounts payable and accrued liabilities	1,260
Deferred revenue	27,991
Interest payable on long-term liabilities	75,466
Long-term liabilities, due within one year	
Capital related liabilities	306,023
Long-term liabilities, due beyond one year	
Capital related liabilities	5,742,696
Non-capital related liabilities	<u>120,962</u>
 Total Liabilities	 <u>6,274,398</u>
Net Assets	
Investment in capital assets, net of related debt	5,725,792
Restricted net assets:	
Expendable:	
School-based activities	1,588,851
Debt service	371,303
Forestry improvements	86,809
Unemployment benefits	52,276
Non-expendable:	
Sixteenth section	21,091
Unrestricted	<u>2,351,332</u>
 Total Net Assets	 \$ <u><u>10,197,454</u></u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2003

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in Net Assets
			Contributions	Contributions	Governmental
					Activities
Governmental Activities:					
Instruction	\$ 10,254,702	179,414	1,677,654		(8,397,634)
Support services	4,286,915		841,984		(3,444,931)
Non-instructional	1,169,781	442,751	749,148		22,118
Sixteenth section	18,569				(18,569)
Interest on long-term liabilities	270,553				(270,553)
Total Governmental Activities	\$ 16,000,520	622,165	3,268,786	0	(12,109,569)
General Revenues:					
Taxes:					
					1,804,986
Unrestricted grants and contributions:					
					9,665,703
					753,426
					67,661
					46,417
					76,742
Total General Revenues					12,414,935
Change in Net Assets					305,366
Net Assets - Beginning					9,892,088
Net Assets - Ending					\$ 10,197,454

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2003

Exhibit C

	<u>Major Funds</u>					<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>EHA Part B</u>	<u>Sixteenth</u>	<u>ROTC</u>	<u>COPS</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>2000 Grant</u>	<u>Section</u>	<u>Fund</u>	<u>Program</u>	<u>Funds</u>	<u>Funds</u>
ASSETS			Interest Fund		Fund		
Cash and cash equivalents	\$ 2,209,390		1,058,384			650,515	3,918,289
Cash with fiscal agents						1,169	1,169
Investments						279,187	279,187
Due from other governments	147,177	41,031		20,096	35,863	202,629	446,796
Accrued interest receivable	1,792						1,792
Other receivables, net			14,061				14,061
Due from other funds	113,935						113,935
Inventories and prepaid items						36,047	36,047
Total Assets	<u>\$ 2,472,294</u>	<u>41,031</u>	<u>1,072,445</u>	<u>20,096</u>	<u>35,863</u>	<u>1,169,547</u>	<u>4,811,276</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable & accrued liabilities	\$		1,260				1,260
Due to other funds		41,031		20,096	35,863	16,945	113,935
Deferred revenue			3,220			24,771	27,991
Total Liabilities	<u>0</u>	<u>41,031</u>	<u>4,480</u>	<u>20,096</u>	<u>35,863</u>	<u>41,716</u>	<u>143,186</u>
Fund Balances:							
Reserved for:							
Inventory						36,047	36,047
Unreserved:							
Undesignated, reported in:							
General Fund	2,472,294						2,472,294
Special Revenue Funds			1,067,965			623,924	1,691,889
Debt Service Funds						446,769	446,769
Permanent Funds						21,091	21,091
Total Fund Balances	<u>2,472,294</u>	<u>0</u>	<u>1,067,965</u>	<u>0</u>	<u>0</u>	<u>1,127,831</u>	<u>4,668,090</u>
Total Liabilities & Fund Balances	<u>\$ 2,472,294</u>	<u>41,031</u>	<u>1,072,445</u>	<u>20,096</u>	<u>35,863</u>	<u>1,169,547</u>	<u>4,811,276</u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,668,090
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,596,159.	11,774,511
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(6,169,681)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds.	<u>(75,466)</u>
Total Net Assets - Governmental Activities	<u>\$ 10,197,454</u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2003

	Major Funds					Other	Total
	General	EHA Part B	Sixteenth	ROTC	COPS	Governmental	Governmental
	Fund	2000 Grant	Section	Fund	Program	Funds	Funds
		Fund	Interest Fund		Fund		
Revenues:							
Local sources	\$ 2,092,496					479,058	2,571,554
State sources	9,350,144	3,000				749,213	10,102,357
Federal sources	883,351	447,768		57,323	27,475	2,169,641	3,585,558
Sixteenth section sources			46,052			365	46,417
Total Revenues	<u>12,325,991</u>	<u>450,768</u>	<u>46,052</u>	<u>57,323</u>	<u>27,475</u>	<u>3,398,277</u>	<u>16,305,886</u>
Expenditures:							
Instruction	8,163,800	283,078		114,646		1,473,611	10,035,135
Support services	3,285,928	172,094			27,475	701,156	4,186,653
Noninstructional services	5,000					1,124,327	1,129,327
Sixteenth section			10,579			7,990	18,569
Debt service:							
Principal	11,073					741,938	753,011
Interest						279,541	279,541
Other						727	727
Total Expenditures	<u>11,465,801</u>	<u>455,172</u>	<u>10,579</u>	<u>114,646</u>	<u>27,475</u>	<u>4,329,290</u>	<u>16,402,963</u>
Excess (Deficiency) of Revenues over Expenditures	<u>860,190</u>	<u>(4,404)</u>	<u>35,473</u>	<u>(57,323)</u>	<u>0</u>	<u>(931,013)</u>	<u>(97,077)</u>
Other Financing Sources (Uses):							
Sale of transportation equipment	1,348						1,348
Operating transfers in				57,323		508,109	565,432
Other financing sources						87,000	87,000
Operating transfers out	(433,309)					(132,123)	(565,432)
Other financing uses						(88,000)	(88,000)
Total Other Financing Sources (Uses)	<u>(431,961)</u>			<u>57,323</u>		<u>374,986</u>	<u>348</u>
Net Change in Fund Balances	<u>428,229</u>	<u>(4,404)</u>	<u>35,473</u>	<u>0</u>	<u>0</u>	<u>(556,027)</u>	<u>(96,729)</u>
Fund Balances:							
July 1, 2002	<u>2,044,065</u>	<u>4,404</u>	<u>1,032,492</u>			<u>1,700,634</u>	<u>4,781,595</u>
Decrease in reserve for inventory						<u>(16,776)</u>	<u>(16,776)</u>
June 30, 2003	<u>\$ 2,472,294</u>	<u>0</u>	<u>1,067,965</u>	<u>0</u>	<u>0</u>	<u>1,127,831</u>	<u>4,668,090</u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2003

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (96,729)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$177,639 and the depreciation expense amounted to \$501,194.	(323,555)
2. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	10,715
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	753,011
4. Proceeds from the sale of assets are reported in the governmental funds as revenues, but only the gain or loss on the sale of assets is reported in the Statement of Activities.	(1,348)
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities net of proceeds.	(12,785)
6. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(16,776)
7. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>(7,167)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>305,366</u></u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2003

Exhibit E

		Agency Funds
Assets		
Cash and cash equivalents	\$	<u>988,086</u>
Total Assets	\$	<u><u>988,086</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	869,445
Due to student clubs		<u>118,641</u>
Total Liabilities	\$	<u><u>988,086</u></u>

The notes to the financial statements are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

EHA Part B 2000 Grant Fund - This is a Special Revenue Fund that is used to insure proper disbursement of, and accounting for, funds received in accordance with the Individuals with Disabilities Education Act (IDEA).

Sixteenth Section Interest Fund - This fund serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are either shared with other school districts or transferred to the district's General Fund per specific statutory board order.

ROTC Fund - This is a Special Revenue Fund that is used to insure proper disbursement of, and accounting for, funds received from the Junior Reserve Officers' Training Corps program.

COPS Program Fund - This is a Special Revenue Fund that is used to insure proper disbursement of, and accounting for, funds received through the Community Oriented Policing Services (COPS) program.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide Statement of Net Assets. See Note 6 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Changes in Accounting Principles and Restatement of Fund Balance.

For the fiscal year ended June 30, 2003, the school district implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the school district's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to GASB Statement No. 34.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

	General Fund	EHA Part B 2000 Grant Fund	Sixteenth Section Interest Fund	ROTC Fund	COPS Program Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances, June 30, 2002							
As Originally Presented	\$ 2,044,065	4,404				1,531,247	3,579,716
GASB Statement No. 34 Adjustments and Restatements:							
Changes in fund structure			1,032,492			169,387	1,201,879
Restated Fund Balance, June 30, 2002	<u>\$ 2,044,065</u>	<u>4,404</u>	<u>1,032,492</u>	<u>0</u>	<u>0</u>	<u>1,700,634</u>	<u>4,781,595</u>
GASB Interpretation 6:							
Compensated absences payable							(113,795)
GASB Statement No. 34 Adjustment:							
Capital assets							12,112,199
Accrued interest payable							(86,181)
Long-term liabilities							<u>(6,801,730)</u>
Governmental Activities Net Assets, June 30, 2002						\$	<u>9,892,088</u>

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions was \$4,906,375, and the bank balance was \$5,575,403.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$1,169.

Investments.

Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

Investments made by the school district that are included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered or for which the securities are held by the school district or its agent in the school district's name.

Category 2 - Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the school district's name.

Category 3 - Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the school district's name.

Investment Type	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury bills	\$ 100,930			100,930	100,930
U.S. government obligations and agencies	<u>178,257</u>			<u>178,257</u>	<u>178,257</u>
Total Investments	\$ <u><u>279,187</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>279,187</u></u>	<u><u>279,187</u></u>

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds		
General Fund	\$ 113,935	
EHA Part B 2000 Grant Fund		41,031
ROTC Fund		20,096
COPS Program Fund		35,863
Other governmental funds		<u>16,945</u>
Total Funds	\$ <u><u>113,935</u></u>	<u><u>113,935</u></u>

B. Transfers In/Out.

	Transfer In	Transfers Out
Governmental Funds		
General Fund	\$	433,309
ROTC Fund	57,323	
Other governmental funds	<u>508,109</u>	<u>132,123</u>
Total Funds	\$ <u><u>565,432</u></u>	<u><u>565,432</u></u>

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

(5) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance 7-1-2002	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	Balance 6-30-2003
<u>Non-depreciable capital assets:</u>					
Land	\$ 171,804				171,804
Total non-depreciable capital assets	<u>171,804</u>				<u>171,804</u>
<u>Depreciable capital assets:</u>					
Buildings	11,962,266				11,962,266
Improvements other than buildings	2,322,126			33,673	2,389,472
Mobile equipment	2,396,400	177,639	140,190		2,433,849
Furniture and equipment	492,079		11,454	(33,673)	413,279
Total depreciable capital assets	<u>17,172,871</u>	<u>177,639</u>	<u>151,644</u>	<u>0</u>	<u>17,198,866</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,137,682	216,053			3,353,735
Improvements other than buildings	236,469	91,284			327,753
Mobile equipment	1,508,299	167,235	126,171		1,549,363
Furniture and equipment	350,026	26,622	11,340		365,308
Total accumulated depreciation	<u>5,232,476</u>	<u>501,194</u>	<u>137,511</u>	<u>0</u>	<u>5,596,159</u>
Total depreciable capital assets, net	<u>11,940,395</u>	<u>(323,555)</u>	<u>14,133</u>	<u>0</u>	<u>11,602,707</u>
Governmental activities capital assets, net	<u>\$ 12,112,199</u>	<u>(323,555)</u>	<u>14,133</u>	<u>0</u>	<u>11,774,511</u>

An adjustment was made to properly classify improvements other than buildings and furniture and equipment.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 212,400
Support services	265,116
Non-instructional	<u>23,678</u>
Total depreciation expense	<u>\$ 501,194</u>

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

(6) Long-term liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

		Balance 7-1-2002	Additions	Reductions	Balance 6-30-2003	Amounts due within one year
A.	Limited obligation notes payable	\$ 810,000		425,000	385,000	70,000
B.	Limited obligation bonds payable	3,870,000		235,000	3,635,000	155,000
C.	Obligations under energy efficiency lease	1,000,000		63,735	936,265	50,776
D.	Qualified zone academy bonds payable	800,000			800,000	
E.	Other loans payable	321,730		29,276	292,454	30,247
F.	Compensated absences payable	<u>113,795</u>	<u>7,167</u>		<u>120,962</u>	
	Total	<u>\$ 6,915,525</u>	<u>7,167</u>	<u>753,011</u>	<u>6,169,681</u>	<u>306,023</u>

A. Limited obligation notes payable.

Limited obligation notes are direct obligations and pledge the full faith and credit of the school district. Limited obligation notes currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited obligation notes	4.69%	04-01-98	04-01-08	\$ 1,135,000	385,000
Total				<u>\$ 1,135,000</u>	<u>385,000</u>

The following is a schedule by years of the total payments due on this debt:

	Year Ending June 30	Principal	Interest	Total
2004	\$	70,000	18,057	88,057
2005		75,000	14,774	89,774
2006		75,000	11,256	86,256
2007		80,000	7,739	87,739
2008		<u>85,000</u>	<u>3,986</u>	<u>88,986</u>
Total	\$	<u>385,000</u>	<u>55,812</u>	<u>440,812</u>

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

The limited obligation school notes are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The limited obligation school notes are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Long-term Pledge Fund.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds	Varies	02-01-98	02-01-18	\$ 4,285,000	3,635,000
Total				\$ <u>4,285,000</u>	<u>3,635,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2004	\$ 155,000	170,223	325,223
2005	165,000	161,423	326,423
2006	170,000	152,210	322,210
2007	180,000	142,495	322,495
2008	190,000	132,135	322,135
2009 - 2013	1,080,000	508,591	1,588,591
2014 - 2018	<u>1,695,000</u>	<u>232,875</u>	<u>1,927,875</u>
Total	\$ <u>3,635,000</u>	<u>1,499,952</u>	<u>5,134,952</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Paying Agent Fund.

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

C. Obligations under energy efficiency lease.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2004	\$ 50,776	46,574	97,350
2005	53,427	43,923	97,350
2006	56,216	41,133	97,349
2007	59,151	38,198	97,349
2008	62,239	35,110	97,349
2009 - 2013	363,468	123,279	486,747
2014 - 2018	290,988	25,397	316,385
Total	\$ <u>936,265</u>	<u>353,614</u>	<u>1,289,879</u>

An energy efficiency lease agreement dated September 25, 2001, was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$1,000,000 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the Energy Efficiency Lease Fund and not exceed fifteen (15) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	0.00%	05-15-01	05-15-11	\$ <u>800,000</u>	<u>800,000</u>
Total				\$ <u><u>800,000</u></u>	<u><u>800,000</u></u>

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

E. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 37-59-101, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Blount building loan	5.2%	04-03-02	04-10-12	\$ 230,350	209,405
Asbestos abatement loan	0.00%	04-19-91	05-31-10	199,319	83,049
Total				<u>\$ 429,669</u>	<u>292,454</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2004	\$ 30,247	10,452	40,699
2005	31,270	9,429	40,699
2006	32,347	8,352	40,699
2007	33,482	7,217	40,699
2008	34,677	6,022	40,699
2009 - 2013	130,431	10,818	141,249
Total	<u>\$ 292,454</u>	<u>52,290</u>	<u>344,744</u>

This debt will be retired from the Blount Building Fund and the District Maintenance Fund.

F. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2003, 2002 and 2001 were \$897,497, \$853,764 and \$828,868, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

<u>Year Ending June 30</u>	<u>Amount</u>
2004	\$ 34,350
2005	33,478
2006	32,129
2007	31,504
2008	30,338
2009 - 2013	122,367
2014 - 2018	91,524
2019 - 2023	91,374
2024 - 2028	91,189
Thereafter	<u>52,675</u>
Total	\$ <u><u>610,928</u></u>

(9) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Trustmark National Bank in Jackson. The funds in the trust account are used to pay any claim up to \$175,000. For a claim exceeding \$175,000, MSBAWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Weyerhaeuser, Mid South Insurance Company and Neshoba Education Foundation, has entered into such an arrangement dated May 15, 2001.

In this arrangement, each partner agreed to contribute to the district in the form of a grant on July 1, 2001, for the benefit of the Qualified Zone Academy. The partners, Weyerhaeuser, Mid South Insurance and Neshoba Education Foundation, made contributions in the amount of \$60,000, \$10,000 and \$12,000, respectively.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before May 15. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2004	\$ 58,000
2005	58,000
2006	58,000
2007	58,000
2008	58,000
2009 - 2013	157,000
Total	\$ <u>447,000</u>

NESHOBA COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,334,297	2,094,268	2,092,496	(240,029)	(1,772)
State sources	9,100,572	9,390,739	9,350,144	290,167	(40,595)
Federal sources	850,000	883,351	883,351	33,351	
Total Revenues	12,284,869	12,368,358	12,325,991	83,489	(42,367)
Expenditures:					
Instruction	8,979,361	8,201,642	8,163,800	777,719	37,842
Support services	3,005,700	3,285,928	3,285,928	(280,228)	
Noninstructional services		5,000	5,000	(5,000)	
Facilities acquisition and construction	5,000			5,000	
Debt service:					
Principal	10,000	11,073	11,073	(1,073)	
Total Expenditures	12,000,061	11,503,643	11,465,801	496,418	37,842
Excess (Deficiency) of Revenues over Expenditures	284,808	864,715	860,190	579,907	(4,525)
Other Financing Sources (Uses):					
Sale of transportation equipment			1,348		1,348
Operating transfers in	482,342	574,597		92,255	(574,597)
Operating transfers out	(806,220)	(1,007,906)	(433,309)	(201,686)	574,597
Total Other Financing Sources (Uses)	(323,878)	(433,309)	(431,961)	(109,431)	1,348
Net Change in Fund Balances	(39,070)	431,406	428,229	470,476	(3,177)
Fund Balances:					
July 1, 2002	2,272,947	2,044,065	2,044,065	(228,882)	0
June 30, 2003	\$ 2,233,877	2,475,471	2,472,294	241,594	(3,177)

The notes to the required supplementary information are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
EHA Part B 2000 Grant Fund
For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
State sources	\$	42,736	3,000	42,736	(39,736)
Federal sources	403,861	408,031	447,768	4,170	39,737
Total Revenues	403,861	450,767	450,768	46,906	1
Expenditures:					
Instruction	406,986	283,078	283,078	123,908	
Support services	19,957	172,094	172,094	(152,137)	
Total Expenditures	426,943	455,172	455,172	(28,229)	0
Excess (Deficiency) of Revenues over Expenditures	(23,082)	(4,405)	(4,404)	18,677	1
Net Change in Fund Balances	(23,082)	(4,405)	(4,404)	18,677	1
Fund Balances:					
July 1, 2002	23,082	4,404	4,404	(18,678)	0
June 30, 2003	\$ 0	(1)	0	(1)	1

The notes to the required supplementary information are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 55,000	41,669	46,052	(13,331)	4,383
Total Revenues	<u>55,000</u>	<u>41,669</u>	<u>46,052</u>	<u>(13,331)</u>	<u>4,383</u>
Expenditures:					
Sixteenth section	10,000	11,086	10,579	(1,086)	507
Total Expenditures	<u>10,000</u>	<u>11,086</u>	<u>10,579</u>	<u>(1,086)</u>	<u>507</u>
Excess (Deficiency) of Revenues over Expenditures	<u>45,000</u>	<u>30,583</u>	<u>35,473</u>	<u>(14,417)</u>	<u>4,890</u>
Net Change in Fund Balances	<u>45,000</u>	<u>30,583</u>	<u>35,473</u>	<u>(14,417)</u>	<u>4,890</u>
Fund Balances:					
July 1, 2002	1,026,243	1,032,492	1,032,492	6,249	0
June 30, 2003	<u>\$ 1,071,243</u>	<u>1,063,075</u>	<u>1,067,965</u>	<u>(8,168)</u>	<u>4,890</u>

The notes to the required supplementary information are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 ROTC Fund
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
State sources	\$ 55,000			(55,000)	
Federal sources		57,323	57,323	57,323	
Total Revenues	55,000	57,323	57,323	2,323	0
Expenditures:					
Instruction	110,000	114,647	114,646	(4,647)	1
Total Expenditures	110,000	114,647	114,646	(4,647)	1
Excess (Deficiency) of Revenues over Expenditures	(55,000)	(57,324)	(57,323)	(2,324)	1
Other Financing Sources (Uses):					
Operating transfers in	55,000	57,324	57,323	2,324	(1)
Total Other Financing Sources (Uses)	55,000	57,324	57,323	2,324	(1)
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2002	0	0	0	0	0
June 30, 2003	\$ 0	0	0	0	0

The notes to the required supplementary information are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 COPS Program Fund
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 17,000	27,475	27,475	10,475	
Total Revenues	<u>17,000</u>	<u>27,475</u>	<u>27,475</u>	<u>10,475</u>	<u>0</u>
Expenditures:					
Support services	17,000	27,475	27,475	(10,475)	
Total Expenditures	<u>17,000</u>	<u>27,475</u>	<u>27,475</u>	<u>(10,475)</u>	<u>0</u>
Excess (Deficiency) of Revenues over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2002	0	0	0	0	0
June 30, 2003	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

The notes to the required supplementary information are an integral part of this statement.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ended June 30, 2003

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

Individual funds that were required to be budgeted but were not budgeted are as follows:

Individual Fund		Amount
Capacity Grant IDEA Fund	\$	31,377
MAEP Paying Agent Fund		416,675

The unbudgeted funds are in violation of state law. However, the school district has no liability associated with this violation.

Individual funds that have an excess of expenditures over funds available, including amounts of the excess, are as follows:

Individual Fund		Amount
Chapter I Fund	\$	3,006
Reading Excellence Fund		124
Energy Efficiency Fund		19,801

These funds are in violation of state law. However, the school district has no liability associated with these violations.

NESHOBA COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

NESHOBA COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Direct program:		
Distance learning and telemedicine loans and grants	10.855	\$ 124,762
Total		<u>124,762</u>
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	<u>69,203</u>
Child nutrition cluster:		
School breakfast program	10.553	103,194
National school lunch program	10.555	474,056
Total child nutrition cluster		<u>577,250</u>
Total U.S. Department of Agriculture		<u>771,215</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	<u>57,323</u>
Total U.S. Department of Defense		<u>57,323</u>
<u>U.S. Department of Justice</u>		
Direct program:		
Public safety partnership and community policing grants	16.710	<u>27,475</u>
Total U.S. Department of Justice		<u>27,475</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	450,878
Bilingual education - program development and implementation grants	84.288	<u>153,147</u>
Total		<u>604,025</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	688,294
Vocational education - basic grants to states	84.048	22,607
Indian education - grants to local educational agencies	84.158A	53,746
Safe and drug-free schools and communities - state grants	84.186	19,485
Even start - state educational agencies	84.213	145,587
Fund for the improvement of education	84.215	591
Innovative education program strategies	84.298	12,594
Reading excellence	84.338	163,440
Improving teacher quality - state grants	84.367	<u>231,685</u>
Total		<u>1,338,029</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	483,522
Special education - preschool grants	84.173	25,238
Total		<u>508,760</u>
Total passed-through Mississippi Department of Education		<u>1,846,789</u>
Total U.S. Department of Education		<u>2,450,814</u>
Total for All Federal Awards		\$ <u><u>3,306,827</u></u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

NESHOBA COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated April 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated April 22, 2004, which is included in this report.

Internal Control Over Financial Reporting

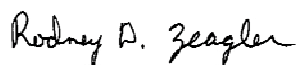
In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

April 22, 2004



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Neshoba County School District

Compliance

We have audited the compliance of the Neshoba County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Neshoba County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Neshoba County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

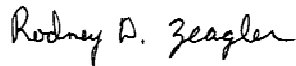
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 03-3 and 03-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the findings referred to above are material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

April 22, 2004

NESHOBA COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

NESHOBA COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated April 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$135,820 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

A current surety bond for the purchasing agent was not on file in the chancery clerk's office.

Recommendation

The district should comply with Section 37-39-21, Miss. Code Ann. (1972), which requires that surety bonds be filed and recorded in the office of the chancery clerk of the county in which the school district is located.

School District's Response

The district has implemented procedures which will assure that all surety bonds will be filed and recorded in the office of the chancery clerk.

2. Finding

The following areas of noncompliance were noted during our examination of the district's budget for the 2002-2003 fiscal year:

- A. The district's original nor the final amended budget was recorded in the board minutes.
- B. During our examination of the district's last approved budget on or before the date set by the Mississippi Department of Education, we noted that the following funds were not budgeted:

Special Revenue Fund	
Capacity Grant IDEA Fund	\$ 31,377

Debt Service Fund	
MAEP Paying Agent Fund	416,675

- C. A comparison of actual functional expenditures with the final amended budget, as approved by the school board for fiscal year ended June 30, 2003, indicated that expenditures exceeded resources available in the following funds:

Special Revenue Funds	
Chapter I Fund	\$ 3,006
Reading Excellence Fund	124

Debt Service Fund	
Energy Efficiency Fund	19,801

Recommendation

The district should take the following steps to correct the noncompliance:

- A. The district should comply with Sections 37-61-9 and 37-61-21, Miss. Code Ann. (1972), which require the budgets to be incorporated in the minutes of the school board by spreading them on the minutes or by attaching them as an addendum.
- B. The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires a fund be budgeted before any expenditures are incurred in that fund.
- C. The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires expenditures be limited by fund to budgeted amounts. When expenditures exceed budgeted amounts, revision of the budget is allowed under Section 37-61-21, Miss. Code Ann. (1972).

School District's Response

The district will take the following steps to correct the noncompliance:

- A. Beginning January 2004, the original budgets and all amended budgets will be included in the board minutes of the Neshoba County School District.
- B. Beginning January 2004, all funds to be expended by the Neshoba County School District will be included in an approved budget before expenditures are made.

- C. Beginning January 2004, procedures were put in place to assure that expenditures would not exceed resources available and budgeted amounts.

3. Finding

The district did not credit interest earned in the pooled bank accounts to the investing fund.

Recommendation

The district should comply with Section 37-59-43, Miss. Code Ann. (1972), which requires that interest earned be credited to the investing fund.

School District's Response

Procedures were put in place January 2004, to assure that interest earned in pooled bank accounts will be credited to the investing fund.

4. Finding

During inspection of the sixteenth section lease ledger, instances were noted where payments of leases were more than 60 days late.

Recommendation

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), which requires "the superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section land; likewise, he shall keep a correct current docket upon the existing leases or any extensions thereof as to the amounts and time of payment of rentals provided for by such lease. It shall be the duty of the superintendent to collect investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease."

School District's Response

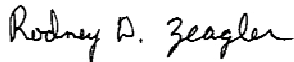
Beginning January 2004, the Neshoba County School District shall comply with Section 29-3-57, Miss. Code Ann. (1972), which addresses sixteenth section leases and termination of unpaid leases.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

April 22, 2004

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOPA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2003

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster
CFDA #10.553
CFDA #10.555 | |
| b. | Special education cluster
CFDA #84.027
CFDA #84.173 | |
| c. | Title I - grants to local educational agencies
CFDA #84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | Yes |

NESHOBA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses

03-1. Finding

Controls were not in place to prevent outside organizations from opening bank accounts with the school district's tax identification number. We found two bank accounts belonging to outside organizations that were using the district's tax identification number.

Recommendation

The district should implement proper controls to prevent improper use of the district's tax identification number.

03-2. Finding

The following internal control weaknesses were noted during our examination of 72 expenditure transactions selected for test purposes:

- A. Invoices for twenty-one expenditure transactions did not contain both a receiving date and signature to indicate the receipt of goods or services.
- B. Fourteen purchase orders did not list individual items and prices on the purchase order.
- C. Eight expenditure transactions were paid from a duplicate copy or faxed copy of the invoice.
- D. Purchase orders for six expenditure transactions were dated after the invoice date.
- E. Tax was paid on one expenditure transaction.
- F. Invoices for two expenditure transactions exceeded the amount approved on the purchase order.

Recommendation

The district should implement policies and procedures to correct the above noted weaknesses. At a minimum, the district should implement the following procedures:

- A. Receipt of goods and services should be documented by a signature or initial and dated by the individual receiving the goods or services.
- B. Purchase orders should list all items to be purchased with the approved purchase price of each item.
- C. In order to prevent the duplication of payment on an invoice, payment should be made only from original vendor invoices.
- D. Purchase orders should be prepared and approved by personnel prior to the ordering of goods or services.
- E. Tax should not be paid on purchases made with school district funds.

NESHOBA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

- F. The district should properly reconcile invoices to the approved purchase order.

Section 3: Federal Award Findings and Questioned Costs

Reportable Conditions Not Considered to be Material Weaknesses

03-3. Finding

Programs: Title I - grants to local educational agencies - CFDA #84.010; U.S. Department of Education; passed-through the Mississippi Department of Education

Special education cluster - CFDA #'s 84.027 & 84.173; U.S. Department of Education; passed-through the Mississippi Department of Education

Compliance requirement: Cash management

The district requested funds in excess of immediate need from the Mississippi Department of Education. Interest earned on those funds was not properly reported and remitted to the state agency. This situation represents a weakness over the controls surrounding the cash management requirement for this federal program.

Recommendation

The district should implement policies and procedures to insure compliance with the cash management requirement for federal program funds, which requires the district to request funds in a manner that will allow for the disbursement of those funds in a timely manner. We also recommend that any interest earned on excess federal program funds be properly reported and remitted to the Mississippi Department of Education.

03-4. Finding

Program: Child nutrition cluster - CFDA #'s 10.553 & 10.555; U.S. Department of Agriculture; passed-through the Mississippi Department of Education

Compliance requirement: Program income

During our examination of internal controls relevant to revenue received from daily lunch sales, we noted that deposits were not being made timely at Neshoba Central Elementary School.

Recommendation

The district should implement policies and procedures to insure that deposits are made in a timely manner for compliance with the program income requirement.

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS

NESHOBA COUNTY SCHOOL DISTRICT

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NESHOBA COUNTY SCHOOL DISTRICT

V. C. MANNING, Superintendent

P.O. Box 338

PHILADELPHIA, MISSISSIPPI 39350

Telephone (601) 656-3752 • Fax (601) 656-3789

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Accounts Payable/Purchasing Officer

MRS. LISA ALFORD

Business Officer

MRS. KAY COPELAND

Executive Secretary

May 20, 2004

Office of State Auditor
Financial and Compliance Division
Post Office Box 956
Jackson, MS 39205

As required by Section 315(c) of OMB Circular A-133, the Neshoba County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2003.

Finding 03-01

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601/656-3752.
Policies and procedures will be implemented that will insure no outside organizations will use the districts tax identification number. The procedures were put in place in January 2004.

Finding 03-02

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601/656-3752.

- A. A receiving record which will contain both a receiving date and signature to indicate the receipt of goods or services will be attached to the signed invoice. This procedure was put in place in January 2004.
- B. Individual items and prices will be listed on individual purchase orders beginning in January 2004.
- C. Beginning in January 2004, expenditure transactions will be paid from original invoices to prevent duplication of payment of an invoice.
- D. Beginning in January 2004, a purchase order will be issued and dated before purchases are made to assure that invoices are dated after purchase orders.
- E. Beginning January 2004, procedures were implemented to assure tax is not paid on school district purchases.
- F. Beginning in March 2004, procedures were implemented to assure that expenditure transactions will not exceed the amount approved on the purchase order.

Section 3: Federal Award Findings and Questioned Costs

Finding 03-3

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601/656-3752


The District implemented procedures in January 2004 to request Federal Funds on a reimbursement basis. This will assure for disbursement of Federal Funds in a timely manner.


Finding 03-4

Susan Reynolds, Financial Officer, 601/656-3752

The District implemented procedures in January 2004 to assure that deposits for revenue from daily lunch sales are made on a timely basis to assure compliance with the Program Income Requirement.

Sincerely,


V.C. Manning
Superintendent of Education
Neshoba County Schools


Susan Reynolds
Financial Officer
Neshoba County Schools

NESHOBA COUNTY SCHOOL DISTRICT

V. C. MANNING, Superintendent

BOARD OF EDUCATION

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MRS. LISA ALFORD
Business Officer
MRS. KAY COPELAND
Executive Secretary

April 22, 2004

Office of State Auditor
Financial and Compliance Division
Post Office Box 956
Jackson, MS 39205

As required by Section 315(c) of OMB Circular A-133, the Neshoba County School District has prepared and hereby submits the following corrective action plan for the finds included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2002.

Finding

02-1

Corrective Action Plan Details

- A. Susan Reynolds, Financial Officer, 601-656-3752.
- B. Policies and procedures were implemented that will insure compliance with the cash management requirement for the Title I Program fund. Program funds will not be requested from the Mississippi Department of Education in excess of immediate needs. This finding was not corrected in FY 03, but was implemented in January 2004.

C. April 2004

Finding

02-02

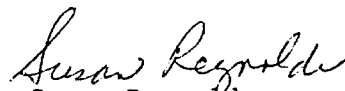
Corrective Action Plan Details

- A. Susan Reynolds, Financial Officer, 601-656-3752
- B. Policies and procedures were implemented in January 2004 that will insure compliance with the cash management federal requirements for the Special Education cluster. Program funds will not be requested from the Mississippi Department of Education in excess of immediate needs. This finding was not corrected in FY 03.
- C. April 2004

Sincerely,



V.C. Manning
Superintendent



Susan Reynolds
Financial Officer